



# Monthly Bulletin

Volume 12, Number 6

December 2008

## Message from the Commissioner

January 7, 2009

To: California State Chartered Financial Institutions  
From: William S. Haraf, Commissioner of Financial Institutions  
Re: Ten "Watch List" Items for 2009 - 2010

Hello Everyone,

Many of us at the Department of Financial Institutions are happy to be through with 2008, a truly "*annus horribilis*" for the financial industry, and I expect that many of you share that view.

2009 will bring further challenges for us all. With those challenges in mind, I offer up 10 items on my personal "watch list" for the next 12 to 24 months. Note that these are NOT predictions, but a few things to think about as we enter the New Year. Take them in the spirit in which they are intended -- to provoke thought and improve risk awareness in these uncertain times.

1. The economy deteriorates further in the first half of 2009 and does not begin to show significant improvement until 2010.
2. Home prices in the hardest hit parts of the state bottom out early in 2009, but slide at a sharper pace in more affluent areas through year-end.
3. Residential mortgage delinquencies and foreclosures continue to rise with significant upticks in the conforming and prime jumbo segments.
4. The bulk of the remaining \$350 billion in TARP funding is used to subsidize mortgage relief for homeowners, but the program does not scale up significantly until the second half of 2009.

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5. Increased bankruptcy filings and downsizing of the services and manufacturing sectors take a rising toll on C&I and commercial real estate loan portfolios, but losses remain below the peak of the prior credit cycle in the late 1980s/early 1990s.
6. Early in 2010, the Federal Reserve begins to shrink its balance sheet and unwind the substantial monetary stimulus it provided in the final months of 2008. This has a significant impact on net interest margins for those institutions with maturity or re-pricing mismatches.
7. The U.S. Congress initiates an important series of hearing on regulatory reform, ultimately culminating in legislation in 2010. Some regulatory consolidation results, but the dual chartering system survives intact.
8. The temporary deposit insurance limit of \$250 thousand per account is made permanent.
9. Community banks and credit unions emerge from the current crisis stronger than ever as “back to basics” financial services providers regain momentum that had been lost to the so-called shadow banking system in recent years.
10. DFI continues to offer the “charter of choice” in California as a result of its thoughtful and measured approach to supervision.

On behalf of all of us at the Department of Financial Institutions, I wish all of you good health and happiness in 2009. We will all have much work to do this year, so be sure to find the time to count your blessings, and embrace and be thankful for your family, friends, and colleagues.

Sincerely,

***William S. Haraf***

Commissioner

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## Residential Mortgage Special Report

The deepening recession continues to negatively affect the residential real estate market in California and has resulted in expanding delinquencies and foreclosures in not only non-traditional mortgage products, but Alt-A and prime mortgage products. Policymakers continue to look for ways to mitigate the effects of the deteriorating real estate market on borrowers who are at risk of foreclosures.

It is important that the DFI maintain complete, accurate, and up-to-date information on the real estate loan portfolios of licensees to determine current risk and assess the potential effect of any proposed regulatory or statutory changes at the federal and/or state level on our licensees. We apologize for the

timing of this report; however, hearings on proposed legislation that may affect licensees could begin as early as January 2009.

To that end, the Commissioner directs licensees to submit a special report, pursuant to California Financial Code sections 1934 and 14255. The special report has been emailed to all credit union and bank licensees and is to be completed and submitted on or before **January 23, 2009 at 5:00 PM**. Please note that the California Financial Code section 216.3 provides the Department of Financial Institutions with the authority to fine licensees not in compliance with an order issued by the Commissioner.

## General Instructions

Complete the form. If there are questions where the institution has no amount to report, then leave the field blank, rather than enter zero. Regardless of your institution having nothing to report, you are required to submit a blank form on or before the due date. Save the form to a familiar location on your computer and name the file SR 09 followed by your institution's name. Reply to the email from [survey@dfi.ca.gov](mailto:survey@dfi.ca.gov) and attach the completed form. If you would like to send your completed special report with encryption you may wish to do so using ZixMail. Follow this link if you would like to learn more about ZixMail <http://www.zixcorp.com/solutions/emailencryption.php>.

If you have any questions or issues with this special report, please contact Kristine De Young by phone at (916) 324-7488 or email at [kdeyoung@dfi.ca.gov](mailto:kdeyoung@dfi.ca.gov).

*The efforts of you and your staff in providing this information in a timely manner are greatly appreciated.*

## Assembly Bill 1301 Becomes Law

[AB 1301 \(Gaines\)](#) was signed by Gov. Schwarzenegger on July 16, 2008 and became law on January 1, 2009. Among other things, the bill eliminated unnecessary applications that consume time and resources of bank licensees and which in many cases are now perfunctory.

All of current Article 5 – “Locations of Head Office” of Chapter 3, and all of Chapter 4 – “Branch Offices, Other Places of Business and Automated Teller Machines” were repealed.

A new Chapter 4 – “Bank Offices,” was added. The new Chapter 4 requires notice to the Department of the establishment of offices, rather than the current application process. Many of the current branch applications are perfunctory in nature and/or provide for a waiver of application.

Banks, on an exception basis, may be subject to more stringent requirements as deemed necessary. As an example, new banks, banks undergoing a change in ownership and banks in less than satisfactory condition may be required to obtain prior approval from the Department before establishing offices if such activity is deemed to create an issue of safety and soundness.

The bill eliminated unnecessary provisions in the Banking Law that are either outdated or have become undue restrictions to bank licensees. Chapter 6 – “Powers and Miscellaneous Provisions” was repealed.

A new Chapter 6 - "Restrictions and Prohibited Practices" was added. This chapter brings together restrictions in bank activities as formerly found in Chapter 18 - "Prohibited Practices and Penalties." However, in bringing the restrictions into the new chapter, various provisions were updated to remove the need for prior approval by the Commissioner.

The bill renumbered current Banking Law sections to align like sections to provide clarity to the Banking Law. Chapter 4.5 - "Authorizations for Banks" was added. The purpose of the chapter is to provide exceptions to certain activities that would otherwise be prohibited by other laws outside of the Financial Code.

The bill added Article 1.5 - "Loan and Investment Limitations" to Chapter 10 - "Commercial Banks." This article is new in concept and acknowledges that investment decisions are business decisions - so long as there is a diversification of the investments to spread any risk. The risk is diversified in this article by placing a limitation on the loans and investments that can be made to any one entity. This section is a trade-off for elimination of applications to the Department for approval of investments in securities, which were repealed.

Other changes AB 1301 made to the Banking Law:

- Authorized a bank or trust acting in any capacity under a court or private trust to arrange for the deposit of securities in a securities depository or federal reserve bank, and provided how they may be held by the securities depository;
- Reduced from 5% to 1% the amount of eligible assets to be maintained at an approved depository by an office of a foreign (other nation) bank for the protection of the interests of creditors of the bank's business in this state or for the protection of the public interest;
- Facilitated the scheduling of bank examinations with the Federal Deposit Insurance Corporation and the Federal Reserve Board to avoid overlap of examinations;
- Enabled the Department to issue an order against a bank licensee parent or subsidiary;
- Provided that the examinations may be conducted in alternate examination periods if the Department concludes that an examination of the state bank by the appropriate federal regulator carries out the purpose of this section, but the Department may not accept two consecutive examination reports made by federal regulators;
- Provided that the Department may examine subsidiaries of every California state bank, state trust company, and foreign (other nation) bank to the extent and whenever and as often as the Department shall deem advisable;
- Enabled the Department to issue an order or a final order to now include any bank holding company or subsidiary of the bank, trust company, or foreign banking corporation that is violating or failing to comply with any applicable law, or is conducting activities in an unsafe or injurious manner;
- Enabled the Department to take action against a person who has engaged in or participated in any unsafe or unsound act with regard to a bank, including a former employee who has left the bank;
- Allowed the Department to accept electronic applications and provided that a verification method chosen by the Department has the same force and effect as the use of manual signatures.

If you have comments or questions regarding AB 1301, please contact Assistant General Counsel Kenneth Sayre-Peterson at (916) 322-1570 or by e-mail at [ksayre-peterson@dfi.ca.gov](mailto:ksayre-peterson@dfi.ca.gov).

## **Schedule S Discontinued**

Each year at December 31, banks were required to complete Schedule S (Form 507) which captured the dollar amount of investments pursuant to Chapter 6 of the California Financial Code, Powers and Miscellaneous Provisions. On July 16, 2008 Governor Schwarzenegger signed into law Assembly Bill 1301, which, among other things repealed Division 6 effective January 1, 2009. Consequently, Schedule S has been discontinued starting with the December 31, 2008 call report period.

## **Commissioner Appoints NCUA to Receivership of Valley Credit Union**

### **NCUA Sells Valley Credit Union to Illinois Credit Union**

On December 31, 2008, Commissioner William S. Haraf issued an Order Rescinding the Order for Conservation and Tender of Appointment as Conservator in the matter of the conservatorship of Valley Credit Union (which was placed into conservatorship on September 2, 2008). The Commissioner thereafter issued an Order for Receivership and a Tender of Appointment as Receiver to the National Credit Union Administration ("NCUA"), and the NCUA accepted tender. The NCUA immediately entered into a Purchase and Assumption Agreement with Citizens Equity First Credit Union of Peoria, Illinois ("CEFCU"), whereby substantially all Valley Credit Union assets, liabilities and shares were transferred to CEFCU.

## **Notice to Credit Unions Regarding CU HARP and CU SIP**

The Department of Financial Institutions has received a number of inquiries regarding state-licensed credit unions participation in two lending programs recently initiated by the National Credit Union Administration ("NCUA"). The two initiatives are: the Credit Union System Investment Program (commonly referred to as "CU SIP"); and, the Credit Union Homeowners Affordability Relief Program (commonly referred to as "CU HARP"). The CU SIP program is designed to provide liquidity for the corporate credit union system. The CU HARP is a two-year, \$2 billion program intended to assist homeowners who are facing delinquency, default, or foreclosure on their mortgages, especially in the face of diminished home prices. In implementing the CU HARP, both the NCUA and the CLF require assistance from the relevant state credit union regulator in verifying that state-chartered credit unions participating in the CU HARP are complying with the terms and conditions of CU HARP. To that end, the Department of Financial Institutions will execute an agreement with the NCUA assuring its

cooperation in monitoring the compliance of California state-chartered credit unions that participate in CU HARP with the requirements of that program.

**While California state-chartered credit unions do not need to obtain approval from the Department to participate in either CU SIP or CU HARP, the credit unions must notify the Commissioner if they participate in one or both of the programs.** We appreciate your cooperation in this matter.

If you have any questions for the DFI regarding the application process, please contact RaAnn Wood, Deputy Commissioner, Credit Union Division, at (213) 897-2155, or at [rwood@dfi.ca.gov](mailto:rwood@dfi.ca.gov).

## **Governor Schwarzenegger Launches “Bank on California”**

### **Program Will Help Unbanked Californians Open Bank Accounts**

On December 12, 2008, Commissioner William Haraf participated in a press conference held by Governor Arnold Schwarzenegger that launched “Bank on California”. California is the first state in the nation to implement a program designed to help citizens without checking or savings accounts open starter accounts. With the goal of opening 100,000 bank accounts over the next two years, the Governor has partnered with city mayors, community groups, financial institutions, the FDIC, and federal and state regulatory agencies to put this innovative plan into action - bringing California's unbanked the opportunity to gain access to lower-cost sources of credit and financial services, establish savings, build credit history and invest for the future.

Commissioner Haraf would like to thank and acknowledge those licensees that have chosen to help the unbanked members of their communities take the first steps in achieving financial freedom and to encourage others to do likewise. He would particularly like to recognize the participation of incoming Conference of State Bank Supervisors chair Joe Smith and New York Superintendent of Banks Richard Neiman, Pennsylvania Secretary Steve Kaplan, and Washington Director of Financial Institutions Brad Williamson for their willingness to come to Sacramento to participate in the state-wide launch of "Bank on California" and other meetings with government officials and bankers over the course of the day. It was a remarkable show of the cohesiveness and vitality of the state banking system.

For more information please visit: [www.bankoncalifornia.ca.gov](http://www.bankoncalifornia.ca.gov).

## DFI Supports U.S. Treasury's Go Direct Campaign

### Urges Banks and Credit Unions to Stand Up and Be Recognized for Promoting Direct Deposit

Whether your bank or credit union serves a small town, a large city or an entire region, customers in your community look to you for sound advice about their money. The U.S. Department of the Treasury's Go Direct campaign is announcing a new recognition program for financial institutions that go the extra mile in promoting direct deposit to senior citizens, people with disabilities, veterans and other members who receive federal benefits. The six-month [Go Direct Community Ambassadors Program](#) launches in January and is aimed at community- and medium-sized financial institutions. The program is simple to implement and provides banks and credit unions with a flexible way to demonstrate their commitment to the community's financial health while gaining recognition from Treasury's Go Direct campaign. All banks and credit unions are invited to register online at [www.GoDirect.org](http://www.GoDirect.org) by January 31, 2009.

Banks and credit unions that successfully participate in the Community Ambassadors program will receive a letter of recognition and certificate from Go Direct. Participating banks and credit unions will be offered a variety of options for sharing information about the benefits of direct deposit with their customers, including ordering free Go Direct materials.

The simple act of switching to direct deposit can have a meaningful, positive impact on the lives of your customers and on your community. Consider the following:

- Direct deposit is safer and easier than paper checks – in fact, when there is a problem with a Social Security payment, nine times out of ten it is with a paper check, not a direct deposit payment.
- Direct deposit also provides “green” benefits by reducing the paper and energy required to distribute checks.
- And direct deposit saves taxpayers money. Since it was launched in 2005, the Go Direct campaign has generated more than two million enrollments in direct deposit representing significant savings to taxpayers in printing, mailing and other costs.

Raising awareness about the benefits of direct deposit is a community effort. More than 1,200 Go Direct partner organizations engage in direct deposit education efforts across the country – including financial institutions, non-profits, and community-based groups. For more information about the Community Ambassadors program or Go Direct, call (952) 346-6055, or visit [www.GoDirect.org](http://www.GoDirect.org). DFI encourages its licensees to consider becoming involved in this very worthwhile program.

## SCO Issues Notice to Holders

### Change in Guidelines for Paper Reporting

The State Controllers' Office (SCO) has requested that DFI forward the following notice to licensees and other stakeholders:

The purpose of this notice is to inform you that effective March 1, 2009, Paper Reports will only be accepted for reporting fewer than 10 properties. Therefore, the Notice Reports for Insurance Companies due before May 1, 2009 and Remit Reports due between June 1 and June 15, 2009 must be reported electronically when reporting 10 or more properties. For your convenience, a link to free reporting software is available on the State Controller's Office (SCO) website at [www.sco.ca.gov](http://www.sco.ca.gov).

The SCO encourages all holders to submit reports in electronic format, regardless of the number of properties being reported. Electronic reports maximize the accuracy of reports and efficiency of SCO processing, and make the overall reporting process easier for holders.

For complete reporting instructions and forms, go to our website at [www.sco.ca.gov](http://www.sco.ca.gov). To receive automatic updates related to reporting unclaimed property, the website also features an option to subscribe to our e-mail list.

If you have any questions please call the Unclaimed Property Reporting Unit at (916) 464-6284 or email [ucpreporting@sco.ca.gov](mailto:ucpreporting@sco.ca.gov). You may also email the Holder Outreach Unit at [updholderoutreach@sco.ca.gov](mailto:updholderoutreach@sco.ca.gov).

Please take some time to read some useful information provided by the California Unclaimed Property Division: [Holder Outreach Winter Newsletter](#) (PDF).

Also, see the additions that have recently been posted to the Holder Information page of our website: [New Holder Information](#).

Please direct further inquiries to the SCO telephone numbers and email addresses listed above and refer to the SCO links that have been provided for your use.



## Commercial Bank Activity

### New Bank

Global Trust Bank  
700 E. El Camino Real, Mountain View, Santa Clara County  
(650) 810-9400  
(650) 810-9452 (facsimile)  
Officers: James C. Wall, President and CEO  
Robert C. Navarrete, Senior Vice President and Chief Credit Officer  
R. Dale McKinney, Senior Vice President and Chief Financial Officer  
Capitalization: \$21,000,010.00  
Website: <http://www.myglobaltrustbank.com>  
Opened: 12/3/08

### Conversion to State Charter

Universal Bank, West Covina, to convert to state-chartered commercial bank  
Filed: 9/30/08

## Industrial Bank Activity

### Change of Name

First Security Thrift Company, Orange, to change its name to First Security Business Bank  
Notified: 12/18/08

## Premium Finance Company Activity

### New Premium Finance Company

Alpine Funding Partners, Inc.  
111 Sutter Street, City and County of San Francisco  
Withdrawn: 12/29/08

Premium One Funding Corporation  
8530 La Mesa Boulevard, La Mesa, San Diego County  
Filed: 12/8/08

Seaway Premium Finance Company  
500 N. State College Boulevard, Orange, Orange County  
Filed: 12/23/08

**New Premium Finance Company (continued)**

Tepco Premium Finance of California Inc.  
500 South Kraemer Avenue, Brea, Orange County  
Opened: 12/24/08

**Acquisition of Control**

BB&T Corporation to acquire control of Charleston Premium Finance Company of California, Inc.  
Filed: 12/16/08

## **Credit Union Activity**

**Bylaw Amendment**

One credit union received approval for one bylaw amendment during November 2008.

**Merger**

Embarcadero Federal Credit Union, San Francisco, to merge with and into 1st Pacific Credit Union, Vallejo  
Effected: 12/29/08

## **Foreign (Other State) Bank Activity**

**New Facility**

Great Western Bank (Facility – Insured Bank)  
1990 N. California Boulevard, Walnut Creek, Contra Costa County  
Notified: 12/29/08

## **Transmitter of Money Abroad Activity**

**New Transmitter**

Google Payment Corp.  
Filed: 11/19/08

**Voluntary Surrender of License**

Armenian Express, Inc.  
Effected: 11/1/08

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WILLIAM S. HARAF  
Commissioner of Financial Institutions

Bulletin for Month ended  
December 2008, issued pursuant  
to Financial Code section 258



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